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B1, 1.4(D)PAGE 01 CARACA 13152 01 OF 09 121929Z
ACTION ARA-01

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 TO SECSTATE WASHDC IMMEDIATE 6825
 INFO AMEMBASSY LIMA
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S E C R E T SECTION 01 OF 09 CARACAS 13152

DEPARTMENT PLEASE PASS USTR

E.O. 12356: DECL:OADR
 TAGS: KPRP, PGOV, PHUM, SOCI, ECON, PINR, VE
 SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

1. SECRET/NOFORN - ENTIRE TEXT.
2. SUMMARY: STUDENT RIOTS HAVE SPARKED A CRISIS OF CONFIDENCE, AND EVEN SOME COUP-MONGERING BY POLITICIANS WHO SHOULD KNOW BETTER. THERE WILL BE NO COUP, BUT

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 PRESIDENT PEREZ FACES SERIOUS PROBLEMS FOR THE REMAINDER OF HIS TERM -- PROBLEMS THAT REFLECT BOTH THE SOCIAL DISTRESS INEVITABLE IN A PERIOD OF RADICAL (EVEN THOUGH VERY SUCCESSFUL) ECONOMIC CHANGE AND, MORE IMPORTANTLY, VENEZUELA'S OTHER WEAKNESSES: POOR DELIVERY OF BASIC SERVICES, AND CORRUPTION. CAP WILL RESOLVE THE CURRENT SITUATION WITH TRADITIONAL CURES, SUCH AS A CABINET SHAKE-UP AND PERHAPS COSMETIC CHANGES IN ECONOMIC AND SOCIAL POLICIES. WE DO NOT EXPECT HIM TO BACK AWAY FROM THE CORE OF HIS ECONOMIC POLICIES. WE SEE NO SIGN, HOWEVER, THAT CAP OR ANYONE CLOSE TO HIM IS READY YET TO

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DEAL EFFECTIVELY WITH THE GOV'S "ADMINISTRATIVE" WEAKNESSES. THESE ARE LIKELY TO REMAIN A PROBLEM THROUGHOUT HIS PRESIDENCY, REDUCING HIS ABILITY TO DEFEND THE ECONOMIC REFORMS OR TO MAKE PROGRESS IN THOSE REMAINING AREAS OF ECONOMIC POLICY WHERE CONGRESSIONAL APPROVAL IS NEEDED.

3. CAP'S PROBLEMS ARE LIKELY TO AFFECT AREAS OF CONCERN TO US. HE COULD HAVE REAL DIFFICULTY GETTING CONGRESS TO ENACT IMPROVEMENTS TO THE ANDEAN PACT'S RECENT DECISION 311 ON INTELLECTUAL PROPERTY RIGHTS. THE SAME IS TRUE WITH REGARD TO THE VALUE-ADDED TAX (NOT LIKELY TO TAKE EFFECT BEFORE JANUARY 1994); FINANCIAL REFORM LEGISLATION (UNDER ATTACK BY LOCAL BANKERS); AND FOREIGN POLICY (HE MAY HAVE TO AVOID COSTLY OR CONTROVERSIAL COMMITMENTS). YET, WE DO NOT ANTICIPATE SIGNIFICANT BACKSLIDING IN KEY AREAS OF ECONOMIC POLICY. END SUMMARY

SETTING THE FRAMEWORK

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4. A "CRISIS" ATMOSPHERE HAS RECENTLY STRUCK VENEZUELA. STARTING WITH MAJOR CORRUPTION SCANDALS IN MAY-JUNE (WHICH HAVE NEVER REALLY GONE AWAY), THE CRISIS DEEPENED IN RECENT WEEKS. THERE HAVE BEEN STUDENT PROTESTS AGAINST PRICES, POLICE BRUTALITY, AND THE ECONOMIC "PACKAGE" OF REFORMS, WHICH STUDENTS AND MANY ORDINARY PEOPLE BELIEVE RESPONSIBLE FOR THEIR CURRENT DEPRIVATIONS. AT LEAST SEVEN STUDENTS HAVE BEEN KILLED BY POLICE AND MILITARY IN STREET BATTLES (ELEVEN, ACCORDING TO ONE PRESS TALLY). THERE HAS BEEN AN APPARENT FAILURE OF NERVE IN SOME CIRCLES (ALTHOUGH NOT BY THE PRESIDENT).

5. THIS SITUATION HAS MOTIVATED US TO TAKE A FRESH LOOK AT THE SITUATION AND AT THE PROSPECTS FOR VENEZUELA, NOW AND IN THE LAST TWO YEARS OF CAP. TO A CERTAIN EXTENT, WE TRY HEREIN TO WEIGH THE DOMESTIC ACHIEVEMENTS OF HIS ALMOST THREE YEARS IN OFFICE. WE ASK WHY THERE IS SO MUCH UNREST, AND WE GIVE OUR BEST JUDGMENT ON CHANCES OF SERIOUS FURTHER TROUBLES.

WHAT ECONOMIC REFORM HAS DONE

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6. WHEN CAP TOOK OFFICE IN 1989, HE FACED A DIRE ECONOMIC SITUATION. BAD MANAGEMENT AND A BAD ECONOMIC "MODEL" (FEATURING IMPORT SUBSTITUTION, HIGH TARIFFS, DUAL EXCHANGE RATES, SUBSIDIES AND OVER DEPENDENCE ON PETROLEUM EXPORTS) HAD LEFT THE COUNTRY NEARLY BANKRUPT. CAP LAUNCHED HIS NOW-FAMOUS LIBERALIZATION PROGRAM ON THE BASIS THAT THE COUNTRY HAD NO OTHER ALTERNATIVE. THE

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RESULTS HAVE BEEN MARKEDLY SUCCESSFUL. WE ARE REVIEWING, IN A SERIES OF MESSAGES NOW IN PROGRESS, THE MANY STEPS TAKEN BY THE PEREZ AMINISTRATION TO REDUCE BARRIERS TO TRADE AND INVESTMENT, AND ENHANCE COMPETITION. (THE FIRST MESSAGES OF THE SERIES ARE CARACAS 12559 AND CARACAS 13079.) WE WILL NOT ATTEMPT, IN THE CURRENT MESSAGE, ANOTHER LENGTHY REVIEW OF THOSE SAME EXTRAORDINARY ACHIEVEMENTS. ADDRESSEES ARE NOW FAMILIAR WITH THE ECONOMIC REFORMS, WHICH INCLUDE:

- ELIMINATION OF DUAL EXCHANGE RATES.
- ELIMINATION OF MOST FORMS OF PRICE CONTROL.
- SHARP REDUCTION IN EXPORT INCENTIVES.

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S E C R E T SECTION 02 OF 09 CARACAS 13152

DEPARTMENT PLEASE PASS USTR

E.O. 12356: DECL:OADR
TAGS: KPRP, PGOV, PHUM, SOCI, ECON, PINR, VE
SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

-- PROGRESSIVE REDUCTION OF TARIFFS, WITH A 1993 GOAL OF A
20 PERCENT MAXIMUM.
-- JOINING THE GATT.
-- PRIVATIZATION OF THE MAJOR STATE AIRLINE (VIASA) AND
THE TELEPHONE COMPANY (CANTV).

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-- INJECTION OF TRANSPARENCY AND EVEN-HANDEDNESS INTO
MAJOR ECONOMIC DECISIONS.

7. MUCH REMAINS TO BE DONE, PARTICULARLY AS REGARDS THE
FINANCIAL REFORM PACKAGE (WHICH WOULD INTER ALIA OPEN UP
THE BANKING BUSINESS TO FOREIGN COMPETITION), CREATION OF
A VALUE-ADDED TAX, AND BETTER PROTECTION FOR INTELLECTUAL
PROPERTY RIGHTS (IPR). BUT, IN TERMS OF THE LAWS AND
PRESIDENTIAL DECREES NECESSARY FOR A FUNDAMENTAL
REORIENTATION OF VENEZUELAN ECONOMY, THE BASIC STRUCTURE
IS NOW IN PLACE. MOREOVER, THE FIRST FRUITS OF ECONOMIC
REFORM ARE BEING HARVESTED. VENEZUELA HAD THE FASTEST
GROWING ECONOMY IN LATIN AMERICA IN 1990 AND 1991, AND IS
WIDELY REGARDED AS LATIN AMERICA'S MOST PROMISING COUNTRY
FOR INVESTMENT IN THE NEXT SEVERAL YEARS. FOR 1991,
INFLATION-ADJUSTED GROWTH IS CLOSE TO 10 PERCENT; EVEN
AFTER ADJUSTING FOR THE RAPID POPULATION GROWTH HERE, PER
CAPITA GDP INCREASED BY ABOUT 6 PERCENT, THE LARGEST
INCREASE SINCE THE 1970'S. ECONOMICALLY SOPHISTICATED
PEOPLE ARE TALKING ABOUT THE NEED TO COOL OFF FROM A

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"BOOM". INFLATION IS DOWN PROGRESSIVELY, FROM 89 PERCENT IN 1989, TO ABOUT 41 PERCENT IN 1990, TO AN ESTIMATED 30-32 PERCENT IN 1991. OFFICIALLY-REPORTED UNEMPLOYMENT HAS FALLEN TO AN ACCEPTABLE (BY THIRD WORLD STANDARDS) LEVEL OF 9 OR 10 PERCENT. (AS IS COMMON IN MANY COUNTRIES, OFFICIAL FIGURES DO NOT REFLECT THE HIGH LEVELS OF UNDER-EMPLOYMENT OR THE MANY LOW-PAY, LOW-PRODUCTIVITY "INFORMAL" JOBS).

THE SOCIAL CONTEXT OF DISCONTENT

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8. SO WHY ARE STUDENTS RIOTING? BECAUSE LITTLE BENEFIT FROM THESE LAUDABLE ECONOMIC REFORMS HAS REACHED ORDINARY PEOPLE YET, AND BECAUSE THE GOV IS DOING VERY BADLY ITS JOB OF DELIVERING GOVERNMENTAL SERVICES. O THE FORMER:

-- THE ECONOMY IS RECOVERING ACCORDING TO "MACRO" STATISTICS, BUT INCOMES AND PURCHASING POWER FELL DRASTICALLY IN 1989 AND 1990, AND FOR MUCH OF THE POPULATION HAVE NOT YET RECOVERED. AVERAGE WAGES ROSE BY ABOUT 45 PERCENT IN 1989 (VERSUS 89 PERCENT INFLATION), CONTINUED TO LAG BEHIND PRICES IN 1990 (ALTHOUGH TO A SMALLER EXTENT) AND MAY HAVE FALLEN SHORT IN 1991 ALSO. AT LEAST, THIS IS THE POPULAR PERCEPTION. CAP HIMSELF, IN A PRESS INTERVIEW ON NOVEMBER 23 DURING HIS VISIT TO BRASIL, SAID THAT "UNEMPLOYMENT HAS INCREASED AND, ALTHOUGH WE HAVE GRANTED THREE SALARY INCREASES, PURCHASING POWER HAS DECREASED AND SALARIES ARE NOT KEEPING UP WITH THE INCREASE IN PRICES."

-- OTHER RAPID (AND ULTIMATELY POSITIVE) CHANGES IN FAMILIAR ECONOMIC WAYS ARE FOMENTING POPULAR UNREST. THE LEVEL OF INFLATION DURING THE LAST THREE YEARS, ALBEIT NOW DECLINING, HURT SEVERELY; THE REMOVAL OF PRICE CONTROLS ON FOOD HURT MANY FAMILIES EVEN WORSE. NATIONALLY, AS NEW COMPETITIVE FORCES SWEEP THROUGH THE ECONOMY, HIDDEN SUBSIDIES ARE BEING CUT. MANY PRIVATE EMPLOYERS, FOR EXAMPLE, TRADITIONALLY SUBSIDIZED EMPLOYEE MEALS ON THE JOB. SOME PAID A BROAD RANGE OF BENEFITS TO WORKERS' FAMILIES. SUCH BENEFITS HAVE BEEN ERODING. THE TRADE UNIONS HAVE BEEN INEFFECTIVE IN PROTECTING THEIR MEMBERS

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 FROM THESE LOSSES. #THIS HAS DAMAGED THEIR PRESTIGE, HENCE
 THEIR ABILITY TO ACT AS SPOKESMEN FOR THE WORKERS AND
 DIRECT WORKERS' DISCONTENT INTO PEACEFUL CHANNELS.

-- THE GOVERNMENT SOCIAL SAFETY NET IS INADEQUATE TO
 PROTECT THE POOREST FROM REAL DEPRIVATION. FOR EXAMPLE,
 THE GOV CREATED A "BECA ALIMENTARIA" TWO YEARS AGO, WHICH
 PAYS 500 BOLIVARES (ABOUT \$8) PER MONTH PER CHILD (UP TO A
 MAXIMUM OF THREE CHILDREN) TO POOR FAMILIES. FAMILIES
 MUST REGISTER FOR THE PROGRAM AT THEIR LOCAL SCHOOL. SOME
 OF THE POOREST NEIGHBORHOODS HAVE NO SCHOOL, HENCE
 RESIDENTS HAVE NO WAY TO REGISTER. IF REGISTERED,
 FAMILIES MUST STAND IN LONG LINES AT BANKS TO GET THEIR
 MONTHLY DOLE -- AND THE VALUE OF THAT PITTANCE HAS BEEN
 LEFT UNCHANGED WHILE INFLATION HAS NEARLY DOUBLED PRICES.

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S E C R E T SECTION 03 OF 09 CARACAS 13152

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E.O. 12356: DECL:OADR

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SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

-- ASIDE FROM QUESTIONS OF DEPRIVATION AMONG WORKERS, MANY SPECIAL INTERESTS HAVE BEEN HURT IN SOME DEGREE BY THE ECONOMIC CHANGES OF RECENT YEARS. EVEN THOUGH THE OLD ORDER WAS NOT SUSTAINABLE, SUCH INTERESTS OFTEN BLAME CAP AS THE AUTHOR OF THEIR MISFORTUNES. WHILE THEY DO NOT

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DEMONSTRATE IN THE STREETS, SPECIAL INTERESTS (DOMESTIC PHARMACEUTICAL PRODUCERS FEARING IPR IMPROVEMENTS, LAWYERS WORRIED ABOUT INTERNATIONAL ARBITRATION CLAUSES IN BITS, OWNERS OF SOME INDUSTRIAL ENTERPRISES THAT FEAR COMPETITION UNDER THE NEW RULES, ETC.) KEEP UP A CONSTANT MUTTERING OF DISCONTENT WHICH UNDOUBTEDLY HAS HAD AN EFFECT ON THE TONE OF PRESS COVERAGE OF ECONOMIC STORIES. ON DECEMBER 11, FOR EXAMPLE, THE PRESIDENT OF THE CARACAS CHAMBER OF COMMERCE PUBLICLY PRAISED MANY ASPECTS OF THE ECONOMIC REFORMS, BUT GRUMBLED THAT NONETHELESS "THE PRIVATE SECTOR FEELS CHEATED."

THE GOVERNMENT THAT DOES NOT WORK ...

9. ECONOMIC DEPRIVATION AND "LOSSES" RELATED TO THE VERY REFORM PROCESS ARE ONLY PART OF THE STORY BEHIND DISCONTENT. ANOTHER KEY (AND PERHAPS EVEN MORE IMPORTANT) FACTOR IN POPULAR UNREST IS THE GOV'S FAILURE TO DELIVER BASIC SERVICES. [REDACTED]

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[REDACTED] DESPITE HAVING 1.2 MILLION CIVIL SERVANTS, IT DOES NOT EDUCATE THE POPULATION ADEQUATELY, OR TREAT ITS ILLNESSES, OR MAINTAIN PUBLIC SECURITY, OR EVEN PROVIDE WATER RELIABLY. FOR EXAMPLE:

-- EDUCATION: WITH 250,000 EMPLOYEES IN THE MINISTRY OF

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EDUCATION, THE GOV CANNOT FIND ENOUGH SCHOOL-TEACHERS. QUALITY OF EDUCATION IS LOW. ONLY 31 PERCENT OF STUDENTS STAY BEYOND THE 9TH GRADE (CARACAS 04474). EVEN A BARE ROOM AND A DESK IS TOO MUCH TO HOPE FOR, IN MANY POOR

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BARRIOS. MEANWHILE, THERE ARE SAID TO BE TENS OF THOUSANDS OF "PLANNING" EXPERTS AT MINISTRY HEADQUARTERS. IRONICALLY, EDUCATION IS ONE AREA IS WHICH THE GOV HAS MADE SOME MODEST EFFORTS TO REFORM, BUT IN THE PROCESS BOUGHT ITSELF SHORT-TERM TROUBLE. ABOUT 50 PERCENT OF THE TOTAL EDUCATION BUDGET GOES FOR THE UNIVERSITIES, WHICH HAVE ONLY 9 PERCENT OF THE STUDENTS. THIS DIVISION OF FUNDS IS IN EFFECT A SUBSIDY TO THE MIDDLE CLASSES, WHICH MAINLY USE THE UNIVERSITIES. THE GOV IS TRYING TO RE-DIRECT EMPHASIS TOWARD PRIMARY AND SECONDARY EDUCATION. THE WORLD BANK HAS URGED, ADDITIONALLY, THAT STUDENT FEES AT UNIVERSITIES BE RAISED. TAKEN TOGETHER, THESE INITIAL STEPS HAVE PRODUCED ANGER AMONG UNIVERSITY STUDENTS AND WIDESPREAD RUMORS THAT UNIVERSITIES WILL BE "PRIVATIZED", AND ARE A FACTOR IN THE CURRENT RIOTS.

-- HEALTH: VENEZUELA HAS AN EXTENSIVE NETWORK OF SOCIAL SECURITY HOSPITALS. THOSE WHO VENTURE TO USE THEM SEE HOW BADLY THEY ARE RUN. WE ARE TOLD BY GOV INSIDERS THAT ABOUT 42 PERCENT OF TOTAL HEALTH SPENDING GOES FOR CENTRAL ADMINISTRATION AND "PLANNING", LEAVING JUST 58 PERCENT TO PAY ALL THE DOCTORS AND NURSES, BUY MEDICINES AND EQUIPMENT, KEEP BUILDINGS IN REPAIR, ETC. MEDICINES ARE IN SUCH SHORT SUPPLY, PATIENTS ARE ASKED TO BRING THEIR OWN OR PAY UPON ENTRY (SERVICE IS SUPPOSED TO BE FREE). FAMILIES MUST BRING BED LINEN AND FOOD FROM HOME TO THE SICK. TO BE SURE, GOV PUBLIC HEALTH SEEMS TO DO A FEW THINGS ADEQUATELY. FOR EXAMPLE, NATIONAL CAMPAIGNS OF VACCINATION HAVE KEPT INFECTIOUS DISEASES LOW. BUT OUR FOCUS HERE IS ON POLITICAL PERCEPTION, ON "WHY ARE PEOPLE ANGRY?" IN THE HEALTH AREA, PEOPLE GET BAD CARE FROM THE

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GOV HOSPITALS, AND IT MAKES THEM MAD.

-- WATER: NO ONE WHO HAS LIVED IN CARACAS IN RECENT YEARS

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CAN REMAIN UNTOUCHED BY THE BASIC QUESTION, "DO YOU HAVE WATER TODAY?" EVEN RICH NEIGHBORHOODS OFTEN SUFFER OUTAGES FROM THE MISERABLE SERVICE OF GOVERNMENT-OWNED "INOS", WHILE POORER NEIGHBORHOODS (TYPICALLY, HIGHER UP IN THE HILLS AND MORE VULNERABLE TO LOW PRESSURE) OFTEN GO MONTHS WITHOUT WATER. BAD MANAGEMENT AND THE LACK OF POLITICAL WILL (TO SET WATER PRICES AT LEVELS ADEQUATE TO PAY FOR INVESTMENT) HAVE LEFT THE CITY VULNERABLE TO A CATASTROPHIC FAILURE AT ANY TIME; THERE IS NO SHORTAGE OF POTENTIAL WATER SUPPLIES NEAR CARACAS.

-- TELEPHONES: THE PHONE SERVICE FINALLY GOT SO BAD, THE

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SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

GOV SOLD 40 PERCENT OF THE "CANTV" COMPANY (ALONG WITH EFFECTIVE CONTROL) TO A GTE-LED INTERNATIONAL CONSORTIUM, AMID GENERAL APPLAUSE AND FOR A FAT PRICE (\$1.88 BILLION). AS THE EMPLOYEES AWAIT THE NEW PRIVATE MANAGERS, SERVICE HAS TEMPORARILY GOTTEN EVEN WORSE.

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-- TRASH: CARACAS IS FILTHY, AND OTHER CITIES ARE NOT MUCH BETTER. GARBAGE COLLECTION IS MAINLY PRIVATE AND SEEMS TO WORK FAIRLY WELL, BUT THE STREET SWEEPERS ARE PUBLIC EMPLOYEES. THERE ARE NOT ENOUGH OF THEM, AND MANAGEMENT PRIVATELY CLAIMS THIS IS PARTLY BECAUSE THE GOV DOES NOT PAY ITS BILLS PROMPTLY. MEANWHILE, THE PRIDE OF THE CITIZENS IN THEIR CITY IS OFFENDED ON A DAILY BASIS.

-- POLICE: VENEZUELA'S POLICE ARE BOTH CORRUPT AND INEPT. CRIME IS GROWING EXPLOSIVELY. OPINION POLLS REGULARLY LIST POOR SECURITY AS A (EVEN THE) KEY PUBLIC ISSUE, YET THE GOV IS PERCEIVED AS DOING LITTLE. EARLIER THIS YEAR THE INTERIOR MINISTER, THE HONEST IF RATHER INERT ALEJANDRO IZAGUIRRE, PUBLICLY CALLED FOR A DOUBLING OF HIS BUDGET TO PAY FOR MORE POLICE. INSTEAD, THE INTERIOR MINISTRY BUDGET (WHICH INCLUDES MOST POLICE FUNCTIONS) WILL INCREASE ABOUT 11 PERCENT IN 1992 IN NOMINAL TERMS. EVEN IF SUPPLEMENTAL APPROPRIATIONS INCREASE THE ACTUAL AMOUNT SPENT, THE POLICE WILL APPARENTLY NOT GET ANYTHING LIKE THE RESOURCES THEY NEED.

-- JUSTICE: THE JUSTICE SYSTEM IS IF ANYTHING LESS EFFECTIVE AND LESS RESPECTED THAN THE POLICE. ACCUSED PERSONS ROUTINELY WAIT YEARS, IN BARBAROUS CONDITIONS, FOR TRIAL -- UNLESS THEY CAN BRIBE THEIR WAY OUT, WHICH WITH THE RIGHT CONNECTIONS IS OFTEN EASY. OPINION POLLS INDICATE THAT THE PUBLIC BELIEVES THAT A MAJORITY OF JUDGES ARE CORRUPT. XT, CHANGES IN THE JUSTICE SYSTEM HAVE BEEN COSMETIC THUS FAR, AND THE GOV BUDGET FOR JUSTICE IS DUE TO DECLINE IN REAL TERMS IN 1992.

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MIDDLE CLASS RIOTS?

10. THE STUDENT RIOTS THAT HAVE RECENTLY WORRIED MANY VENEZUELANAS ARE NOT PRIMARILY A FUNCTION OF SLUM KIDS TAKING ON THE POLICE. IT APPEARS THAT MOST DEMONSTRATION PARTICIPANTS ARE AT LEAST marginally MEMBERS OF THE MIDDLE CLASS. IN SEVERAL CASES OF STUDENT DEATHS, THE STUDENT'S BIO AS REPORTED AFTERWARDS WAS ONE OF A STRUGGLING MEMBER OF THE LOWER MIDDLE CLASSES. MANUAL LABORERS AND STREET SELLERS RARELY SEND THEIR CHILDREN TO HIGH SCHOOL OR COLLEGE. THE MIDDLE CLASSES HAVE BEEN BADLY HURT BY THE ECONOMIC CHANGES OF RECENT YEARS. UNLIKE THE RICH, THEY CANNOT TAKE SOPHISTICATED FINANCIAL MEASURES TO DEFEND THEMSELVES; UNLIKE THE VERY POOR, THEY GET NO DIRECT AID PROGRAMS. HOUSING AND CARS ARE SUDDENLY OUT OF REACH FOR MIDDLE CLASS PEOPLE WHO THOUGHT OF THOSE THINGS AS THEIR BIRTHRIGHT. THERE IS WIDESPREAD FEAR, PARTICULARLY ON THE MARGINS, OF FALLING INTO ABSOLUTE POVERTY. AND THERE IS DEEP ANGER AT THE GOV'S FAILURE TO DELIVER HEALTH, EDUCATION, AND POLICE SERVICES. IT APPEARS TO US (AND THIS IS ENCHOED BY A NUMBER OF COMMENTATORS, MOST RECENTLY BY VICE MINISTER OF FINANCE CARLOS STARK IN A MEETING WITH THE DCM AND ECONCOUNS), THAT MIDDLE CLASS RESENTMENT OF GOV INCOMPETENCE IS MORE IMPORTANT THAN ACTUAL POVERTY, AS A CAUSE OF THE RIOTS.

11. AS IS ONLY NATURAL, THE STUDENTS TEND TO MINGLE THEIR VARIOUS CAUSES OF DISCONTENT WHEN PRESENTING LISTS OF DEMANDS. THUS, WHILE THE ECONOMIC REFORM "PACKAGE" MAY
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NOT BE THE REAL CAUSE OF THEIR UNREST, THEY OFTEN DEMAND CHANGES TO IT, SUCH AS RESTORATION OF SOME PRICE CONTROLS. IN THIS WAY, THE GOV'S "ADMINISTRATIVE" PROBLEMS COME BACK TO HAUNT ITS "MACRO" ACHIEVEMENTS IN ECONOMIC REFORM. ALSO, IT APPEARS THAT FAR-LEFTIST FRAGMENTS FROM THE 1960'S GUERRILLA WAR, SUCH AS "BANDERA ROJA", ARE MAKING A MODEST COMEBACK AMONG STUDENTS. DISAFFECTED MEMBERS OF THE MIDDLE CLASS ARE THE CLASSIC RECRUITS FOR SUCH GROUPS. CONCERN ABOUT THE ROLE OF FAR-LEFTISTS HAS BEEN EXPRESSED BY MANY SENIOR FIGURES,

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INCLUDING ZULIA GOVERNOR ALVAREZ PAZ, PRESIDENTIAL
PRE-CANDIDATE CANACHE MATA, AND THE HEAD OF THE "DISIP"
SECURITY POLICE, GEN. HEINZ AZPURUA (THE LAST, IN A
DECEMBER 4 MEETING WITH THE AMBASSADOR). WE HAVE OFTEN
SEEN LARGE DEMONSTRATIONS PROCEED PEACEFULLY, BUT, AS THEY

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BREAK UP, VIOLENCE IS INITIATED BY SMALL GROUPS SEEKING
VIOLENCE AND MARTYRS TO PROMOTE THEIR CAUSES. THE GOV HAS

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SHOWN, IN ITS REACTION TO THESE DEMONSTRATIONS, THE SAME
LACK OF COMPETENCE THAT AFFECTS IT ELSEWHERE. ACCORDING
TO GEN. AZPURUA, HOWEVER, A CONSENSUS IS NOW FORMING THAT
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BETTER ANTI-RIOT TRAINING AND EQUIPMENT IS ESSENTIAL.

THE GOVERNMENT THAT HAS NO MONEY FOR THINGS NEEDED

12. DECLINING REAL SPENDING ON POLICE AND JUSTICE ARE NOT
EXCEPTIONS, THEY ARE TYPICAL OF NEARLY ALL AREAS OF GOV
SOCIAL SPENDING AND INVESTMENT. THE GOV'S OFFICIAL BUDGET
PROJECTIONS (AS REPORTED IN CARACAS 11976) SHOW DECLINES
IN NEARLY EVERY CATEGORY THAT MIGHT PROMOTE THE COMFORT,
SAFETY, OR SATISFACTION OF THE CITIZENS. HEALTH,
EDUCATION, TRANSPORT/COMMUNICATIONS, ENVIRONMENT, URBAN
DEVELOPMENT, ALL SHOW REAL DECREASES. THE POLITICAL
PROBLEM CAUSED BY SUCH SHORTFALLS IS SHORT-TERM, BUT THE
ISSUE IS NOT NEW. AS A DEVELOPING COUNTRY, VENEZUELA HAS
ALWAYS HAD DIFFICULTIES IN RAISING SUFFICIENT REVENUE TO
BUILD A FIRST-RATE PUBLIC INFRASTRUCTURE. STILL, AS AN
OIL PRODUCER, VENEZUELA WAS IN A POSITION TO DO MUCH
BETTER THAN IT DID ON SOCIAL SERVICES. LACK OF SUCCESS
HAS SPRUNG FROM SEVERAL ROOTS:

-- SOCIAL SERVICES HAVE RECEIVED LITTLE PRIORITY. STEEPED
IN THIRD WORLD RHETORIC STRESSING THE KEY ROLE OF
GOVERNMENT IN THE ECONOMY, VENEZUELA SPENT BILLIONS OF
DOLLARS BUILDING AN INEFFICIENT STATE ENTERPRISE SECTOR.
UNTIL RECENTLY, STATE ENTERPRISES CONSISTED OF 40 PERCENT
OF G
P; THEY REMAIN SO INEFFICIENT, THE WORLD BANK
CALCULATED THAT THE MARGINAL PRODUCTIVITY OF LABOR IS
ACTUALLY NEGATIVE.

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-- THE GOVERNMENT BUREAUCRACY HAS BEEN BLOATED BY
POLITICAL PATRONAGE.

-- BILLIONS OF DOLLARS HAVE BEEN LOST THROUGH BLATANT

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CORRUPTION.

-- FURTHER BILLIONS HAVE BEEN WASTED AS COMPLEX AND EXPENSIVE PLANT AND EQUIPMENT DETERIORATED THROUGH LACK OF MAINTENANCE.

-- EXCEPT FOR THE OIL "MILK COW", R
VENUE COLLECTION HAS
BEEN HALF-HEARTED AND EASILY AVOIDED. ONLY GOVERNMENT
EMPLOYEES (WHO ARE SUBJECT TO WITHHOLDING) AND FOREIGN
BUSINESSES PAY SUBSTANTIAL INCOME TAXES.

-- CONTROLS ON SPENDING HAVE BEEN INADEQUATE. THE RECENT
APPEARANCE OF HUNDREDS OF MILLIONS OF DOLLARS IN MILITARY
"PAGARE" PROMISSORY NOTES, UNTIL THEN UNKNOWN TO THE
CENTRAL BANK AND FINANCE MINISTRY, SHOWS HOW LITTLE
CONTROL WAS EXERCISED OVER CONTRACTING FOREIGN DEBT.

13. THE OUTLINES OF AN ANSWER TO THE CURRENT BUDGET
SHORTFALLS ARE ALREADY AT HAND -- IF THE GOV ACTUALLY
COMPLETES WHAT IT HAS BEGUN -- INCREASED REVENUES OBTAINED
BY BOOSTING COMPLIANCE WITH INCOME TAX LAWS (THROUGH MORE
REASONABLE MARGINAL RATES AND THE ADDITION OF A NUMBER OF
NEWLY-TRAINED TAX AUDITORS); TAX DIVERSIFICATION, BY THE
PASSAGE OF A VAT LOOK-A-LIKE MEASURE (WITH INITIALLY LOW,
BUT INCREASING, RATES); AND RESTRUCTURING AND EVENTUAL
PRIVATIZATION OF THE HIGHLY INEFFICIENT STATE

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ENTERPRISES. THESE MEASURES, WHICH AMOUNT TO A LONG TERM
STRUCTURAL REFORM OF THE GOVERNMENT, WILL TAKE SEVERAL
YEARS TO PAY OFF FULLY. THEY CERTAINLY CANNOT BE COUNTED
ON TO ADDRESS SHORT-TERM POLITICAL PROBLEMS. INDEED, THEY
ACTUALLY EXACERBATE SHORT-TERM PROBLEMS BY ANTAGONIZING
"BENEFICIARIES" OF PRE-REFORM POLICIES.

CAP'S HOSTAGES TO FORTUNE

14. THERE IS ANOTHER AND VERY IMPORTANT FACTOR WHICH
HELPS EXPLAIN POPULAR UNREST AND THE GOV'S CURRENT
DIFFICULTIES. NO ONE CAN LOOK SERIOUSLY AT THE CONDITION
OF VENEZUELA WITHOUT CONSIDERING THE MULTIPLE,
INTERLOCKING PROBLEMS CAUSED BY CORRUPTION. EMBASSY HAS
REPORTED EXTENSIVELY ON THIS SUBJECT, FOR EXAMPLE IN
CARACAS 06728 AND 07095. CORRUPTION SCANDALS ARE THE

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O 121928Z DEC 91 ZFF4
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC IMMEDIATE 6830
INFO AMEMBASSY LIMA
AMEMBASSY BOGOTA
USCINCSO QUARRY HEIGHTS PM
USDOC WASHDC

S E C R E T SECTION 06 OF 09 CARACAS 13152

DEPARTMENT PLEASE PASS USTR

E.O. 12356: DECL: OADR
TAGS: KPRP, PGOV, PHUM, SOCI, ECON, PINR, VE
SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

DAILY BREAD OF VENEZUELAN POLITICS. THIS HAS BEEN TRUE
FOR MANY YEARS, BUT THE LEVEL OF INDIGNATION (AND
CERTAINLY THE SPECIFICITY OF PRESS CHARGES) HAS INCREASED
LATELY -- DESPITE THE FACT THAT THE GOV OF TODAY IS ALMOST
CERTAINLY LESS DISHONEST THAN THOSE OF THE IMMEDIATE

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PAST. THERE IS CURRENTLY LESS MONEY AVAILABLE TO STEAL,
AND THE ECONOMIC REFORMS HAVE ELIMINATED SOME NOTORIOUS
SOURCES OF CORRUPTION, SUCH AS MULTIPLE EXCHANGE RATES.
BUT, AT A TIME WHEN ORDINARY PEOPLE ARE SUFFERING REAL
ECONOMIC HARDSHIPS AND THE GOVERNMENT IS NOT DOING ITS
DAILY WORK EFFICIENTLY, SENSITIVITY TO CORRUPTION HAS
RISEN. IT IS PARTICULARLY HARMFUL FOR THOSE NEAR THE
PRESIDENT TO BE SUBJECT TO CORRUPTION CHARGES. SUCH
CHARGES DAMAGE HIS MORAL AUTHORITY AND REDUCE HIS ABILITY
TO CALL CREDIBLY FOR SACRIFICES BY THE COUNTRY.

CAP'S GOVERNMENT, THE BEST AROUND

15. AS NOTED ABOVE, CAP'S GOVERNMENT IS PROBABLY MORE
HONEST THAN HAS BEEN TYPICAL HERE, AND THERE IS NO
INDICATION THAT HE PERSONALLY HAS BEEN ON THE TAKE DURING
THIS ADMINISTRATION. HE HAS BEEN WILLING, FOR EXAMPLE, TO
PRIVATIZE SOME STATE ENTERPRISES (IN A FULLY "TRANSPARENT"
FASHION) RATHER THAN, AS WAS TRADITIONAL, MILKING THEM.
MOST ALTERNATE POLITICAL LEADERS, ESPECIALLY THOSE FROM
THE PRESIDENT'S OWN AD PARTY, WOULD LIKELY RUN A MORE
CORRUPT A SYSTEM IF THEY WERE IN CHARGE. AND THE PARTY
BARONS ARE MOSTLY ANACHRONISTIC RELICS WITH REGARD TO
ECONOMIC POLICIES. MANY WOULD PREFER TO RESTORE PRICE
CONTROLS (AD PARTY PRESIDENT HUMBERTO CELLI, PRESIDENTIAL
PRE-CANDIDATE CANACHE MATA, COPEI EX-PRESIDENT RAFAEL
CALDERA), AND NEARLY ALL DEMAND HIGHER SOCIAL SPENDING
REGARDLESS OF WHERE THE MONEY COMES FROM. THE ADECOS WANT
MORE CABINET MINISTRIES FOR THEMSELVES, SO THEY CAN
DISTRIBUTE GOODIES TO PARTY FAITHFUL AND BUILD SHORT-TERM

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PUBLIC SUPPORT BEFORE NEXT YEAR'S LOCAL ELECTIONS -- AND
DAMN THE CONSEQUENCES FOR THE LONG-TERM HEALTH OF THE
ECONOMY. SUCH LEADERS UNDERSTAND AND WOULD IMPLEMENT THE
CONCEPT OF "ADMINISTRATIVE" REFORMS, AND FIGHT AGAINST
CORRUPTION AND MIS-ALLOCATION OF RESOURCES, EVEN LESS THAN
CAP HAS DONE. IT IS WHEN CAP IS CARELESS ABOUT
ADMINISTRATION, AND TOLERANT OF CORRUPTION, THAT HE IS
MOST TYPICAL OF THE VENEZUELAN POLITICAL ELITE. TO THE
EXTENT THAT CAP WERE TO TAKE ADVICE FROM WITHIN HIS OWN

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PARTY ABOUT HOW TO GET THE COUNTRY THROUGH ITS CURRENT "CRISIS", MUCH OF THE ADVICE WOULD BE BAD AND WOULD ACTIVELY HURT THE COUNTRY'S POLITICAL AND (ESPECIALLY) ECONOMIC PROSPECTS. IN STANDING OUT AGAINST SUCH PRESSURE THUS FAR, THE PRESIDENT IS SHOWING HIS BEST QUALITIES, BUT HE LOOKS MORE THAN A LITTLE LONELY.

POLITICAL "REFOGO"

16. IT HAS BECOME A TRUISM OF VENEZUELAN POLITICAL OBSERVERS THAT THE COUNTRY NEEDS POLITICAL REFORMS EQUIVALENT TO ITS ECONOMIC REFORMS. CAP HIMSELF APPEARS TO ENDORSE THIS VIEW, AND PUBLICLY HAS GIVEN POLITICAL REFORM A HIGH PLACE AMONG HIS GOALS. WHAT IS MEANT BY POLITICAL "REFORM" IS USUALLY NOT THE SORT OF NUTS-AND-BOLTS WORK, FIXING WHAT IS BROKEN INSIDE THE GOV, THAT OUR ANALYSIS SUGGESTS IS NEEDED. RATHER, VENEZUELAN PLACE PRIMARY EMPHASIS ON IMPROVED ACCESS TO POWER, BY A GREATER DOSE OF FEDERALISM (GOVERNORS AND MAYORS ARE NOW ELECTED) AND BY UNINOMINAL ELECTION OF CONGRESSMEN (APPROVED IN PRINCIPLE, BUT NOT YET EFFECTIVE). OVER THE

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LONGER TERM, SUCH REFORMS ARE SURELY A GOOD THING. TO DATE, HOWEVER, THEY HAVE DONE LITTLE (AS MEASURED BY OPINION POLLS) TO RESTORE THE PUBLIC'S RESPECT FOR GOVERNMENT. FURTHERMORE, THERE IS NO NATIONAL CONSENSUS ON WHAT TO DO NEXT (IF ANYTHING); THE PARTIES ARE SQUABBLING BITTERLY OVER DETAILS OF IMPLEMENTING "UNINOMINAL" ELECTION OF OFFICE HOLDERS.

POPULAR ATTITUDES

17. THE VARIOUS FACTORS ABOVE -- BITTERNESS AT ECONOMIC AUSTERITY, AT INCOMPETENT GOVERNMENT SERVICES, AND AT CORRUPTION -- GIVE A RANCID TONE TO VENEZUELAN POLITICS. THE GOVERNMENT AND THE PARTIES STAND VERY LOW IN POPULAR

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O 121928Z DEC 91 ZFF4
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC IMMEDIATE 6831
INFO AMEMBASSY LIMA
AMEMBASSY BOGOTA
USCINCSO QUARRY HEIGHTS PM
USDOC WASHDC

S E C R E T SECTION 07 OF 09 CARACAS 13152

DEPARTMENT PLEASE PASS USTR

E.O. 12356: DECL:OADR
TAGS: KPRP, PGOV, PHUM, SOCI, ECON, PINR, VE
SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

ESTEEM. IN AN AUGUST, 1990, USIA TREND POLL, 68 PERCENT
OF VENEZUELAN'S SAID THEY WERE DISSATISFIED WITH THE WAY
DEMOCRACY IS FUNCTIONING HERE -- THE HIGHEST SUCH FIGURE

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IN LATIN AMERICA; WE BELIEVE THAT THIS YEAR'S ANSWER, WHEN
AVAILABLE, WILL BE IN THE SAME LEAGUE. THE PRESIDENT'S
APPROVAL RATINGS ARE LOW; THOSE OF THE POLITICAL PARTIES

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ARE EVEN LOWER. STRONG PARTIES WITH MASS SUPPORT HAVE BEEN FUNDAMENTAL TO VENEZUELAN ERVJEQ0/3 8, 18;3 COUNTRIES INCLUDING VENEZUELA BY THE "CONSULTORES 21" FIRM, ASKED RESPONDENTS IF THEY SUPPORTED A "STATE ECONOMY" SYSTEM (DEFINED AS INCLUDING PRICE CONTROLS) OR A FREE MARKET ECONOMY. VENEZUELA LED LATIN AMERICA IN SUPPORT FOR STATIST ECONOMIC CONTROLS, WITH 58 PERCENT, VERSUS 33 PERCENT SUPPORTING FREE MARKETS. THE SAME POLL ASKED, "IF THE BAD ECONOMIC SITUATION AND CORRUPTION CONTINUE IN THIS COUNTRY, DO YOU THINK THAT THERE WILL BE - MILITARY COUP, OR THAT DEMOCRACY IS STRONG AND WILL CORRECT THESE PROBLEMS?" 51 PERCENT OF VENEZUELAN SAID THAT, IN THE SITUATION OUTLINED, THEY WOULD EXPECT A COUP; THIS WAS THE HIGHEST LEVEL OF THE FIVE LATIN COUNTRIES SURVEYED. SOME OF THESE POLLS HAVE SERIOUS METHODOLOGICAL PROBLEMS, BUT WE SEE NO REASON TO DOUBT THEIR BASIC IMPORT: VENEZUELAN DISLIKE THE CHANGES THEY HAVE BEEN OBLIGED TO GO THROUGH, THEY DO NOT RESPECT THEIR RULERS OR THEIR PARTIES, AND MANY ARE AT LEAST THINKING ABOUT THE POSSIBILITY OF A MILITARY COUP TO CLEAN UP THE MESS.

... AND WILL THERE BE A COUP?

18. NO, THERE WILL NOT. WE COULD NOT RATE THE CHANCE AT ABSOLUTE ZERO. BUT, TAKING THE SITUATION AS A WHOLE, AND DESPITE ALL THE PROBLEMS OUTLINED ABOVE, WE WOULD RATE THE CHANCES OF A SUCCESSFUL COUP AS ABSOLUTELY MINIMAL, AND

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THE CHANCES OF A MILITARY GESTURE OR "PRONUNCIAMENTO" BY SOME ISOLATED COLONEL, FROM NOW UNTIL THE END OF THE PEREZ ADMINISTRATION, AT NO BETTER THAN ONE IN TEN. WE BASE THIS JUDGMENT ON SEVERAL FACTORS:

-- THE CAREFUL CHECKS AND BALANCES BUILT INTO THE VENEZUELAN MILITARY SYSTEM AFTER 1959 BY ROMULO BETANCOURT, INCLUDING INTER-SERVICE RIVALRIES, FREQUENT CHANGES IN COMMAND, AND COOPTION BY BRIBERY.

-- THE MILITARY'S RECOGNITION THAT VENEZUELA HAS BECOME SO COMPLEX A POLITY, SOCIETY AND ECONOMY THAT THE ARMED FORCES COULD NOT COMPETENTLY ADMINISTER IT, A JOB WHICH SHOULD BE LEFT TO A DEMOCRATICALLY-ELECTED, CIVILIAN GOVERNMENT.

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-- THE PERSONALITY OF PRESIDENT PEREZ. THE MAN IS A FIGHTER, AND WOULD NOT GO QUIETLY.

-- THE RESIDUAL RESPECT, AMONG OPINION-MAKERS, FOR THE DEMOCRATIC SYSTEM.

-- THE INTERNATIONAL CLIMATE OF OPINION, WHICH WOULD NOT PERMIT A SUCCESSFUL COUP. (GEN. AZPURUA ECHOED THIS POINT IN HIS DECEMBER 4 MEETING WITH THE AMBASSADOR.)

-- THE LACK OF ANY POLITICALLY CHARISMATIC FIGURE IN THE MILITARY. THE LAST SUCH FIGURE, MINISTER OF DEFENSE GEN. ITALO DEL VALLE ALLIEGRO, RETIRED IN JULY 1990.

THE SCENARIO FOR A COUP, SHOULD THE MINIMAL CHANCE PAY
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OFF, WOULD RUN SOMETHING LIKE THIS: STREET RIOTS CONTINUE AND WORSEN; OVER-REACTION BY THE SECURITY FORCES BRINGS THE DEMONSTRATORS NEW ALLIES; THE PRESIDENT'S PRESTIGE IS DAMAGED BY FURTHER SCANDALS, ESPECIALLY ONES THAT DIRECTLY INVOLVE HIM; THE GENERALS ARE FACED WITH A SITUATION OF FIRING ON THE CROWDS, OR MARCHING ON MIRAFLORES PALACE; THE GENERALS ARE WORRIED BY ON-GOING INVESTIGATIONS INTO MILITARY CONTRACTING CORRUPTION, AND SEE THE NATIONAL EMERGENCY AS A CHANCE TO PROTECT THEMSELVES; PEREZ HIMSELF LOSES HIS NERVE, OR HIS HEALTH COLLAPSES. IN SUCH CIRCUMSTANCES (WHICH, TO REITERATE, WE CONSIDER HIGHLY UNLIKELY), A SUCCESSFUL COUP WOULD BECOME THINKABLE.

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O 121928Z DEC 91 ZFF4
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC IMMEDIATE 6832
INFO AMEMBASSY LIMA
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S E C R E T SECTION 08 OF 09 CARACAS 13152

DEPARTMENT PLEASE PASS USTR

E.O. 12356: DECL:OADR
TAGS: KPRP, PGOV, PHUM, SOCI, ECON, PINR, VE
SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

PEREZ' COUNTER-ATTACK

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19. IF THE COUNTRY IS NOT GOING TO DUMP ITS GOVERNMENTAL
INADEQUACIES ON A GENERAL, WHAT IS GOING TO HAPPEN? HOW
WILL VENEZUELA EXIT FROM THE CURRENT CRISIS? WE BELIEVE,
TO BEGIN WITH, THAT A DIFFICULT SITUATION (VENEZUELAN
CERTAINLY FACE ONE) IS NOT NECESSARILY A TRUE CRISIS. AS
PEDRO TINOCO, THE PRESIDENT OF THE CENTRAL BANK, RECENTLY
TOLD EMBASSY OFFICERS: IF THE GOV DID NOT BACK AWAY FROM
ECONOMIC REFORM IN FEBRUARY 1989, WHEN TRULY MASSIVE
VIOLENCE OCCURED IN THE STREETS, WHY SHOULD IT BOW TO ANY
LESSER PRESSURE? THE CURRENT "CRISIS" IS IN LARGE MEASURE
A CREATION OF ELEMENTS OF THE PRESS, WITH WHOM CAP HAS
UNFORTUNATELY ALLOWED HIMSELF TO FEUD. MANY OF THE LESSER
FIGURES IN POLITICS

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[REDACTED] HAVE PANICKEDM PEREZ HAS NOT, AND HE IS STILL THE ONE WHO MATTERS. THERE IS NO OBJECTIVE REASON WHY THE GOV SHOULD NOT "RIDE OUT" THE CURRENT DISCONTENTS WITH A JUDICIOUS MIXTURE OF REPRESSION OF STREET VIOLENCE AND TOKEN CONCESSIONS, PLUS CHANGES OF PERSONALITIES IN THE CABINET. WE NOTE, INTER ALIA, REPORTS THAT PEREZ MAY DEFER GASOLINE PRICE INCREASES; THAT A MAJOR CABINET SHAKE-UP BY JANUARY WILL BRING NEW FACES TO INTERIOR, MINES AND ENERGY, FINANCE, POSSIBLY THE MFA, POSSIBLY THE NATIONAL OIL COMPANY, AND SEVERAL LESSER MINISTRIES; AND WE SUSPECT THERE WILL BE AN ANNOUNCMENT OF NEW SOCIAL SPENDING, WHETHER REAL OR NOT. SUCH MEASURES, AND A FEW WEEKS OF CAP STAYING HOME AND TALKING TO THE PEOPLE, SHOULD DO THE TRICK.

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[REDACTED] HE HAS REACHED THE AGE, AND THE STAGE IN HIS PRESIDENCY, WHEN VENEZUELAN PRESIDENTS TRADITIONALLY
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BEGIN TO LOSE SOME OF THEIR PERSONAL POWER. BUT CAP,
REDUCED BY TIME AND CIRCUMSTANCES, IS STILL CAPABLE OF
DOMINATING THIS SOCIETY WHEN HE EXERTS HIMSELF TO THAT END.

... AND THEN WHAT?

20. WE WOULD NOT WISH TO CLOSE, HOWEVER, ON THE NOTE THAT ALL IS, OR SOON WILL BE, WELL. OUR ANALYSIS SUGGESTS THAT VENEZUELA IS A COUNTRY WITH VERY GRAVE PROBLEMS IN ITS POLITICS. DESPITE THESE, THE COUNTRY HAS ENJOYED A LARGE MEASURE OF ECONOMIC SUCCESS IN THE PAST TWO YEARS, PRIMARILY BECAUSE OF THIS ADMINISTRATION'S ECONOMIC REFORM PROGRAM. AS LONG AS CAP HIMSELF HOLDS FAST IN HIS COMMITMENT TO ECONOMIC LIBERALISM, THIS DISCONNECT (BETWEEN INCOMPETENT POLITICS AND SUCCESSFUL ECONOMY) CAN CONTINUE. WE ARE TROUBLED THAT, THREE YEARS INTO VENEZUELA'S GREAT EXPERIMENT IN LIBERALIZATION, SO MUCH STILL DEPENDS ON THE PRESIDENT PERSONALLY. SOME KEY HELPERS FROM THE EARLY DAYS OF HIS ADMINISTRATION ARE GONE. HE CAN STILL RALLY OUTSIDE POLITICAL SUPPORT, INCLUDING FROM THE AD RANKS IN CONGRESS, WHEN HE REALLY NEEDS IT, BUT THE FIGHT IS GETTING HARDER AND THE RESULTS LESS CERTAIN. THIS WILL AFFECT SOME THINGS THAT ARE IMPORTANT TO US IN POLICY TERMS, SUCH AS:

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-- LAST MONTH, CAP TOLD US THAT HE WAS SETTling FOR THE ANDEAN PACT RULES ON IPR BECAUSE THEY WERE BETTER THAN ANYTHING HE COULD GET THROUGH CONGRESS ON HIS OWN. HE MAY HAVE DIFFICULTY TAKING ADVANTAGE OF THE OPENING LEFT BY DECISION 311 APPROVED AT THE RECENT ANDEAN PACT SUMMIT O

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IMPROVE ON THE DECISION WITH DOMESTIC IPR LEGISLATION.

-- WE HEAR EVERYWHERE THAT THVE VALUE-ADDED TAX WILL, IF IT PASSES IN THE NEXT LEGISLATIVE SESSION, NOT TAKE EFFECT BEFORE JANUARY 1994 (AFTER THE 1993 NATIONAL ELECTIONS).

-- THE FINANCIAL REFORM PACKAGE IS BEING HIT IN CONGRESS BY SPECIAL INTERESTS, ESPECIALLY THE BIG BANKERS. WE WILL MAKE OUR VIEWS HEARD WHERE IT COUNTS, BUT WE ARE NOT SANGUINE THAT THIS SET OF MEASURES, IF IT PASSES IN 1992, WILL HAVE EVERYTHING WE WANT IN TERMS OF IMMEDIATE ACCESS FOR U.S. BANKS.

-- WITH HIS CONGRESSIONAL SUPPORT LESS RELIABLE, CAP MAY BE LESS PREPARED TO DISREGARD DOMESTIC CRITICISM ON FOREIGN POLICY ISSUES. AUSTERITY AT HOME MAKES PEOPLE OBJECT TO FOREIGN POLICY INITIATIVES THAT WOULD BE

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FM AMEMBASSY CARACAS
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S E C R E T SECTION 09 OF 09 CARACAS 13152

DEPARTMENT PLEASE PASS USTR

E.O. 12356: DECL:OADR
TAGS: KPRP, PGOV, PHUM, SOCI, ECON, PINR, VE
SUBJECT: TOUGH TIMES FOR PRESIDENT PEREZ, AND MORE TO COME

APPLAUDED IN BETTER TIMES. POLITICIANS FROM CAP'S OWN AD
PARTY, AS WELL AS THE OPPOSITION, ARE MAKING HAQ WITH
CHARGES [REDACTED] THAT CAP NEGLECTS
DOMESTIC AFFAIRS FOR PRESTIGIOUS BUT EMPTY FOREIGN POLICY
INITIATIVES LIKE THE RECENT G-15 SUMMIT, OR LIKE HIS

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UNPOPULAR ACTIVISM ON HAITI. IN RECENT DAYS, OPPOSITION
PARTIES WHICH CONTROL A NARROW MAJORITY IN THE SENATE HAVE
EVEN THREATENED TO FORBID CAP TO LEAVE THE COUNTRY (AS
THEY HAVE A LEGAL RIGHT TO DO), UNLESS HE CAN SHOW THAT
HIS TRIPS SERVE SOME CONCRETE NATIONAL INTEREST. IN
SHORT, FOREIGN POLICY IS NO LONGER A COST-FREE PLAYGROUND
FOR CAP. THIS COULD MEAN MORE THAN JUST CUTTING BACK ON
HIS TRAVEL. HE MAY HAVE TO AVOID COMMITMENTS THAT COST
EVEN MODEST SUMS OF MONEY. (THIS COULD BREAK IN OUR
FAVOR, AT LEAST IN THE CASE OF CUBA; ANY GOV TEMPTATION TO
SUBSIDIZE OIL EXPORTS TO CUBA, OR LEND OTHER SUBSTANTIVE
ASSISTANCE, IS NOW VERY MUCH MORE UNLIKELY.) HE MAY
BECOME MORE CAUTIOUS ABOUT ADDRESSING THE FRONTIER
DISPUTES WITH COLOMBIA OR GUYANA. HE MAY CONCEIVABLY COME
TO AVOID ISSUES LIKE HAITI. (THESE ARE POSSIBILITIES, NOT
NOT PREDICTIONS; CAP IS OBVIOUSLY VERY RELUCTANT TO CUT
BACK ON HIS FOREIGN POLICY ACTIVISM.)

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21. CAP LOOKS TIRED. WITH HIS TRAVEL SCHEDULE, WHO WOULD NOT? HIS LEGENDARY ENERGY MAY BE STARTING TO DECLINE. HIS MANAGEMENT OF THE STUDENT CRISIS HAS NOT, UNTIL NOW, SHOWN HIS USUAL SKILL; WE ARE PARTICULARLY PUZZLED BY HIS DECISION TO CLOSE THE SCHOOLS UNTIL JANUARY. CAP HAS A HISTORY OF HEART DISEASE. HE STILL WORKS 18-HOUR DAYS. AND, TICKING AWAY UNDER THE SURFACE OF HIS GOVERNMENT, ARE (WE BELIEVE) FURTHER SCANDALS WITH THE POTENTIAL TO DAMAGE HIS PRESTIGE AND REDUCE HIS ABILITY TO "STAY THE COURSE" ON THE CRUCIAL ECONOMIC POLICIES WHERE, NOW AS ALWAYS, HE IS THE ONLY ULTIMATE GUARANTOR. BUT WE DO NOT, AT LEAST AT THIS TIME, FORESEE ANY MAJOR BACKSLIDING. SKOL

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